

Message Text

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ACTION EB-11

INFO OCT-01 ISO-00 SS-20 NSC-10 L-03 H-03 SEC-03 JUSE-00

FTC-01 AID-20 CEA-02 CIAE-00 COME-00 EA-11 EUR-25

FRB-02 INR-10 IO-14 NEA-11 NSAE-00 RSC-01 OPIC-12

SPC-03 TRSE-00 CIEP-02 LAB-06 SIL-01 OMB-01 STR-08

-05 DRC-01 XMB-07 /194 W
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R 071816Z FEB 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7806

INFO USMISSION OECD PARIS

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DEPARTMENT ALSO PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, OECD

SUBJECT: OECD REVIEW OF INWARD FOREIGN DIRECT INVESTMENT

REF: A) STATE 20052 B) LONDON 954

1. WE BELIEVE GENERAL QUESTIONS RAISED BY REF A ARE ANSWERED BY REF B, WHICH RESPONDED TO STATE 11634. IN BRIEF, U.S. DIRECT INVESTMENT IN THE U.K. IS STILL WELCOMED AND THERE ARE, TO DATE, NO SPECIAL PROBLEMS CREATED BY HMG POLICIES AND ADMINISTRATIVE PRACTICES FOR U.S. INVESTMENT AND INVESTORS.

2. THIS MUCH SAID, U.K. EXCHANGE CONTROL DOES DIFFERENTIATE IN A WAY WHICH GIVES THE U.S. AND CERTAIN OTHER COUNTRIES LESS FAVORABLE TREATMENT THAN THAT RECEIVED BY MEMBERS OF THE OVERSEAS STERLING AREA OR THE EUROPEAN COMMUNITIES. TO BE MORE SPECIFIC, IT IS OUR UNDERSTANDING BASED ON DISCUSSIONS WITH OFFICIALS AT THE BANK
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OF ENGLAND, THAT FUNDS FOR INVESTMENT ABROAD IN THE OVER-

SEAS STERLING AREA WHETHER IN FOREIGN EXCHANGE OR STERLING CAN FOR PRACTICAL PURPOSES BE OBTAINED IN UNLIMITED AMOUNTS. FOR DIRECT INVESTMENT IN THE EUROPEAN COMMUNITIES, THE EQUIVALENT OF ONE MILLION POUNDS CAN BE OBTAINED AT THE CURRENT FOREIGN EXCHANGE MARKET RATE (I.E WHICH MEANS AVOIDING THE INVESTMENT DOLLAR PREMIUM) PER PROJECT PER YEAR. FOR THE REST OF THE WORLD (THE RNSA, I.E., REST OF THE NON-STERLING AREA IN FOREIGN EXCHANGE JARGON), FOREIGN EXCHANGE CAN BE OBTAINED PROVIDED INVESTMENT PROJECT MEETS "SUPER CRITERIA" I.E., THAT THE FUNDS OBTAINED WILL BE EITHER PAID BACK OR REPATRIATED WITHIN 18 MONTHS. OTHERWISE, THE DIRECT INVESTOR MUST OBTAIN HIS FINANCING OFFSHORE, I.E., FROM FOREIGN SOURCES. CONTACTS IN THE BANK OF ENGLAND MAINTAIN -- AND TO THE BEST OF OUR KNOWLEDGE TRUTHFULLY AND WITHOUT GUILF -- THAT TO THEIR KNOWLEDGE NO SERIOUS DIRECT INVESTMENT PROJECT HAS EVER BEEN FRUSTRATED BY THE ABOVE REGULATIONS.

3. U.K. EXCHANGE CONTROLS ALSO DIFFERENTIATE BETWEEN INWARD DIRECT INVESTMENT PROJECTS DEPENDING UPON THEIR SOURCE. DIRECT INVESTORS FROM THE OVERSEAS STERLING AREA AND FROM EC COUNTRIES CAN BORROW STERLING IN THE UK PRACTICALLY IRRESPECTIVE OF PURPOSE AND INTENT.

4. DIRECT INVESTORS FROM THE REST OF THE NON-STERLING AREA, INCLUDING THE U.S. CAN BORROW STERLING FOR DIRECT INVESTMENTS IN DEVELOPING (I.E., ASSISTED) AREAS TO FINANCE NEW PROJECTS, BUT NOT TO REFINANCE EXISTING ONES. WE UNDERSTAND THAT SUCH BORROWING IS PRACTICALLY WITHOUT LIMITATION PROVIDED THAT THE BANKS CONCERNED HAVE FAITH IN THE BORROWER'S ABILITY TO REPAY.

5. FOR RNSA DIRECT INVESTORS, THE POSSIBILITY OF OBTAIN-

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ING LOCAL FINANCING FOR DIRECT INVESTMENT IN THAT PORTION OF THE U.K. CONSIDERED TO BE DEVELOPED (I.E., AREAS NOT BENEFITTING FROM SPECIAL DEVELOPMENT GRANTS) DEPENDS ON THE IMPORTANCE OF INVESTMENT TO THE U.K. ECONOMY. GENERALLY, NO LOCAL BORROWING IS PERMITTED IF THE INVESTOR'S ACTIVITIES ARE PRIMARILY IMPORTING GOODS PRODUCED BY PARENT COMPANIES. SIMILARLY, IF THE DIRECT INVESTOR IS PRIMARILY INVOLVED IN FINANCIAL OR REAL ESTATE INVESTMENTS, NO LOCAL BORROWING WOULD BE PERMITTED. IF THE DIRECT INVESTOR'S ACTIVITIES ARE CONSIDERED AS "NEUTRAL", OFFERING NEITHER GREAT GOOD NOR PARTICULAR HARM TO THE ECONOMY, THEY MIGHT BE ALLOWED TO BORROW WORKING CAPITAL LOCALLY. IF HOWEVER THE DIRECT INVESTOR PRODUCED EXPORT PRODUCTS (SUCH AS FORD) OR IMPORT SUBSTITUTES (SUCH AS MONSANTO) IT WOULD PROBABLY BE ALLOWED TO BORROW UP TO 30 PERCENT OF ITS FIXED CAPITAL REQUIREMENTS IN ADDITION TO BORROWING ITS WORKING CAPITAL FROM LOCAL SOURCES. BANKING OFFICIALS AS WELL AS BANK OF ENGLAND CONTACTS AGAIN CLAIM THAT THESE REQUIREMENTS HAVE NOT BEEN DEEMED ONEROUS BY THE COMPANIES DIRECTLY INVOLVED, NOR HAVE WE HEARD COMPLAINTS FROM PROSPECTIVE UNCLASSIFIED

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BORROWERS.

6. EMBASSY LONDON BELIEVES THAT THE HIGHLY COMPETENT U.S. EXPERT IN THE INVISIBLES COMMITTEE ALREADY GENERALLY AWARE OF THESE REQUIREMENTS.

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